

BALLANTYNE OF OMAHA INC
Form 10-K
April 02, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File No. 1-13906

Ballantyne of Omaha, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or other jurisdiction of
incorporation or organization)
4350 McKinley Street, Omaha, Nebraska
(Address of principal executive offices)

47-0587703
(I.R.S. Employer Identification No.)

68112
(Zip Code)

Registrant's telephone number, including area code: **(402) 453-4444**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock, \$0.01 par value	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

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Indicate by check mark if the registrant is not required to file reports filed pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

The aggregate market value of the Company's voting common stock held by non-affiliates, based upon the closing price of the stock on the American Stock Exchange on June 30, 2006 was approximately \$50.7 million. The Company does not have any non-voting common equity.

As of March 16, 2007, 13,800,584 shares of common stock of Ballantyne of Omaha, Inc., were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement for its Annual Meeting of Stockholders to be held on May 23, 2007 are incorporated by reference in Part III, Items 10, 11, 12, 13 and 14.

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FORWARD-LOOKING STATEMENTS

Certain statements made in this report on Form 10-K are forward-looking in nature, as defined in the Private Litigation Reform Act of 1995, which involve uncertainties, including but not limited to, quarterly fluctuations in results; customer demand for our products; the development of new technology for alternate means of motion picture presentation; domestic and international economic conditions; the achievement of lower costs and expenses; the continued availability of financing in the amounts and on the terms required to support our future business; credit concerns in the theatre exhibition industry; and other risks detailed from time to time in our other Securities and Exchange Commission filings. Actual results may differ materially from management's expectations.

PART I

Item 1. Business

(a) General Description of Business

General

We are a manufacturer, distributor and service provider to the theatre exhibition industry on a worldwide basis. Through our Strong® trademark, we can fully outfit and automate a theatre projection booth. We also design, develop, manufacture and distribute lighting systems to the worldwide entertainment lighting industry through our Strong Entertainment lighting division. Finally, we provide replacement parts, marinades and breading products to the food service industry.

We are a Delaware Corporation and maintain our corporate office and primary manufacturing facilities in Omaha, Nebraska. We were founded in 1932 and went public in 1995. Our shares are traded on the American Stock Exchange under the symbol BTN. We primarily operate within three business segments: 1) theatre, 2) lighting and 3) restaurant. Approximately 92% of fiscal year 2006 sales were from theatre products, while 6% were lighting products and 2% were restaurant products.

Acquisitions

During fiscal 2006, we acquired certain assets and assumed certain liabilities of National Cinema Service Corp. (NCSC). NCSC has a reputation for quality work, responsiveness and an experienced technical team. This business was folded into a wholly-owned subsidiary, Strong Technical Services, Inc. (STS). STS was formed for the purpose of becoming a national provider of cinema services including film and digital projector maintenance, repair, equipment installations, site surveys and other services.

Divestitures

We divested our restaurant equipment product line during 2003, which accounted for approximately 47% of the segment. We continue to supply parts to an installed equipment customer base and distribute marinade and breading products under the trademark Flavor Crisp®, as well as support our Chicken-On-The-Run and BBQ-On-The-Run programs.

Also during 2003, we disposed of our remaining lighting rental operations so as to focus on our core lighting product lines.

During 2002, we discontinued our audiovisual segment.

(b) Operating Segments

We conduct our operations through three business segments: Theatre, Lighting and Restaurant. The presentation of segment information reflects the manner in which management assesses performance.

Theatre: This segment consists of the manufacture, distribution and service of projection equipment and accessories for the motion picture exhibition industry.

Lighting: This segment consists of the design, manufacture and distribution of lighting systems to the worldwide entertainment lighting industry.

Restaurant: This segment manufactures replacement parts and distributes marinade and breading products for the food service industry.

Refer to the Business Segment Section set forth in Note 16 of our consolidated financial statements for further information concerning the amounts of revenues, profits and total assets attributable to each segment for the last three fiscal years.

(c) Narrative Description of Business

The following information describes the principal products produced, services rendered, principal markets for, and methods of distribution of each business segment of the Company.

Theatre Segment

Overview

The domestic theatre exhibition industry (including Canada) is highly concentrated with management estimating that the top ten exhibitors represent over 56% of the total industry. Based on information obtained from the National Association of Theatre Owners, there were approximately 37,000 screens in the United States. Although the theatre exhibition industry remains primarily based on the use of film technology to deliver motion picture images to the public, the transition to digital images (digital cinema) began to show measurable progress in 2006 after several years of research and development. Factors which have limited the digital cinema implementation have included high digital system costs; product availability for digital cinema; security, control and implementation issues, and a lack of standards for system quality and interoperability. Though digital cinema offers significant potential savings via reduced film delivery and handling costs to movie distributors, the financial models to justify the expenditures required by the exhibitor had been limited up to now. Digital Cinema Initiatives LLC (DCI), a venture created by the major motion picture studios, has made significant progress in resolving these standards and technology issues. In addition, there have been several business plans created to solve the issue of which party would pay for the substantial costs of retrofitting theatre locations currently using film-based projection equipment. Many models now provide a method whereby the motion picture studios or other content providers pay for the digital equipment over time via Virtual Print Fees to third party facilitators each time a projector shows a movie digitally. However, other means of financing could arise as the digital cinema business models mature.

Products

Digital Equipment Through a master reseller agreement with NEC Solutions (America), Inc. (NEC), we distribute Starus DLP Cinema projectors. NEC offers the Starus NC2500S for large screen multiplexes, the NC1500C for medium-sized screens and the Starus NC800C for small theatres. All the projectors use the DLP cinema technology from Texas Instruments. The Starus NC2500S is designed for multiplexes with large screens 49 feet wide and larger. The projector delivers 2K (2048 x 1080) resolution and high contrast images (2000:1). The Starus NC1500C projector is designed for medium-sized screens 26-49 feet wide. The Starus NC800C projector is designed for screens 10 to 25 feet wide to employ DC 2K DMD technology at 2048 x 1080 pixel native resolution.

Motion Picture Projection Equipment We are a developer, manufacturer and distributor of commercial motion picture projection equipment worldwide. Our commercial motion picture projection

equipment can fully outfit and automate a motion picture projection booth and consists of 35mm and 70mm motion picture projectors, xenon lamphouses and power supplies, a console system combining a lamphouse and power supply into a single cabinet, soundhead reproducers and related products such as film handling equipment and sound systems. The commercial motion picture projection equipment is marketed under the industry-wide recognized trademarks of Strong®, Simplex®, Century® and Ballantyne®. We manufacture the majority of the motion picture projection systems in-house, except for the audio rack components, lamps and lenses. This equipment may be sold individually or as an integrated system with other components manufactured by us.

We also manufacture film handling equipment consisting of a three-deck or five-deck platter and a make-up table, which allows the reels of a full-length motion picture to be spliced together, thereby eliminating the need for an operator to change reels during the showing of the motion picture. The majority of our film transport systems are sold under the Strong® name, although we sell systems on an OEM basis.

Lenses We distribute ISCO-Optic film projection lenses through an exclusive distribution agreement with ISCO Precision Optics. We have the exclusive right to distribute these lenses in North America through October 31, 2007, as well as the non-exclusive right to distribute these lenses throughout the rest of the world. ISCO lenses have developed a reputation for delivering high-image quality and resolution over the entire motion picture screen and have won two Academy Awards for technical achievement.

Xenon Lamps We distribute xenon lamps for resale to the theatre and lighting industries through an exclusive distributorship agreement with Lighting Technologies, Inc.

Replacement Parts We have a significant installed base of over 50,000 motion picture projection systems. Although these products have an average useful life in excess of 20 years, periodic replacement of components is required as a matter of routine maintenance, in most cases with parts manufactured by our Company.

Special Venue Products We manufacture 4, 5 and 8 perforation 35mm and 70mm projection systems for large-screen, simulation ride and planetarium applications and for other venues that require special equipment. Our status as a fully integrated manufacturer enables us to work closely with our customers from initial concept and design through manufacturing to the customers' specifications.

Service & Maintenance During fiscal 2006, we acquired National Cinema Service Corp. (NCSC). NCSC has a reputation for quality work, responsiveness and an experienced technical team. NCSC was folded into a wholly-owned subsidiary, Strong Technical Services, Inc. (STS). STS is a national provider of cinema services including film and digital projector maintenance, repair, installations, site surveys and other services. We believe that there will be increased demand for service due to the upcoming digital conversion as theatre operators may not have the necessary technical expertise to maintain the sophisticated nature of digital projectors and accessories. In addition, we feel that there are opportunities to provide service for other items at a theatre complex other than maintaining the projection equipment.

Markets

We market and sell our products through a network of over 100 domestic and international dealers to major theatre exhibitors, sports arenas, amusement park operators and convenience/fast food stores. We also sell directly to end-users. During the past few years we have increasingly sold directly to the end-users thereby bypassing this distribution network. We believe this trend will continue in the future and will change how we market our product to the industry. This shift in the supply chain benefits us in reducing credit exposure, as the exhibitors are generally larger entities with more access to capital. Sales and marketing professionals principally develop business by maintaining regular personal customer contact including conducting site visits, while customer service and technical support functions are dispatched when needed. In addition, we market our products in trade publications such as *Film Journal* and *Box*

Office and by participating in annual industry trade shows such as ShoWest, ShowEast, CineAsia in Asia and Cinema Expo in Europe, among others. Our sales and marketing professionals have extensive experience with the Company's product lines and have long-term relationships with many current and potential customers.

Our theatre business was founded in 1932. Our broad range of both standard and custom-made equipment along with other ancillary equipment can completely outfit and automate a motion picture projection booth and is currently being used by major motion picture exhibitors such as AMC Entertainment, Inc. and Regal Cinemas, Inc.

We believe our installed base of equipment and customer relationships along with expertise in engineering, manufacturing, prompt order fulfillment, delivery, after-sale technical support and emergency service have allowed us to build and maintain these relationships. These relationships will serve us well in the future as the theatre industry transitions to digital cinema.

Competition

The markets for commercial motion picture projection equipment are highly competitive. Major competitors include Christie Digital Systems, Cinemeccanica SpA and Kinoton GmbH. We compete in the commercial motion picture projection equipment industry primarily on the basis of quality, fulfillment and delivery, price, after-sale technical support and product customization capabilities. Certain competitors for our motion picture projection equipment have significantly greater resources than Ballantyne.

In addition to existing motion picture equipment manufacturers, we are now encountering competition from new competitors, as well as from the development of digital cinema technology for alternative means of motion picture presentation. We cannot assure that our equipment, whether it be film or digital equipment will not eventually become obsolete as technology advances. Competition in the digital cinema market includes two other licensed OEM's of the preferred Texas Instruments DLP Cinema technology besides the Company's partner, NEC Solutions (America), Inc.; Christie Digital Systems and Barco NV. There are also other companies such as SONY using different digital technologies attempting to enter the marketplace. For a further discussion of potential new competition, see the Business Strategy section of this report under the caption Expand Digital Opportunities.

Lighting Segment

Overview

Under the trademark Strong®, we are a supplier of long-range follow spotlights which are used for both permanent and touring applications. Under the trademark Xenotech®, we are a supplier of high intensity searchlights and computer-based lighting systems for the motion picture production, television, live entertainment, theme park and architectural industries. We also sell high intensity searchlights under the trademark Sky-Tracker®.

Products

Followspots We have been a developer, manufacturer and distributor of long-range followspots since 1950. Our followspots are primarily marketed under the Strong® trademark and recognized trademarked models such as Super Trouper® and Gladiator®. The Super Trouper® followspot has been the industry standard since 1958. Our long-range followspots are high-intensity general use illumination products designed for both permanent installations, such as indoor arenas, theatres, auditoriums, theme parks, amphitheatres and stadiums, and touring applications. The followspots line consists of six basic models ranging in output from 1000 watts to 4,500 watts. The 1000-watt model, which has a range of 20 to 75 feet, is compact, portable and appropriate for small venues and truss mounting. The 4,500-watt model, which has a range of 300 to 600 feet, is a high-intensity xenon light followspot appropriate for large theatres,

arenas and stadiums. Most of our followspots employ a variable focal length lens system which increases the intensity of the light beam as it is narrowed from flood to spot.

In response to a section of the marketplace demanding less expensive, smaller and more user-friendly products, we have introduced certain new spotlights over the last three years. During 2003, we began distributing an Italian manufactured followspot called the Canto. The Canto spotlight product line consists of six basic models ranging in output from 250 watts to 2,000 watts. During 2004-2005, we designed a new followspot called the Radiance®. The Radiance® is a mid-range followspot powered by an 850 watt metal halide lamp.

Promotional and Other Lighting Products We are a supplier of high intensity promotional searchlights and lighting systems for the motion picture production, television, live entertainment, theme park and architectural markets. Britelight specialty illumination products have been used in numerous feature films and have also been used at live performances such as Super Bowl half-time shows, the opening and closing ceremonies of the 2002 Winter Olympics and are currently illuminating such venues as the Luxor Hotel and Casino and the Stratosphere Hotel and Casino in Las Vegas, Nevada.

Our Sky-Tracker® high intensity promotional searchlights come in single or multiple head configurations, primarily for use at outside venues requiring extremely bright lighting that can compete with other forms of outdoor illumination. These high intensity promotional searchlights have been used at Walt Disney World, Universal Studios, various Olympic games and grand openings.

Markets

We sell our lighting products through a combination of a small direct sales force and commissioned representatives to arenas, stadiums, theme parks, theatres, auditoriums and equipment rental companies. Our followspot products are marketed using the Strong trademark and are used in over 100 major arenas throughout the world. Our lighting systems are marketed under the Strong Britelight trademarks, while the high intensity promotional searchlights are marketed under the Sky-Tracker® trademark.

Competition

The markets for our lighting products are also highly competitive. We compete in the lighting industry primarily on the basis of quality, price, branding and product line variety. Certain competitors for our lighting products have significantly greater resources than Ballantyne.

Restaurant

We supply parts to our installed equipment customer base and distribute marinade and breading products under the trademark Flavor Crisp® through our Chicken-On-The-Run and BBQ-On-The-Run programs.

Business Strategy

Our strategy combines the following key elements:

Expand Digital Opportunities. We currently are a party to a master reseller agreement with NEC whereby we distribute their line of Starus DLP Cinema projectors. We also intend on expanding our product offerings to the theatre exhibition industry focusing on more than just projection equipment and accessories and will continue our plan to increase the service and maintenance business, the core of which was created with the purchase of National Cinema Services Corporation during 2006.

Despite the apparent head start of companies now involved in digital cinema, we believe we are in a solid position to be a successful participant in the marketplace due to our marketing and sales agreement with NEC, our long term industry relationships and the industry's familiarity with our Company and its

large installed base worldwide. However, no assurance can be given that we will in fact be a part of the digital cinema marketplace. If we are unable to take advantage of future digital cinema opportunities or respond to the new competitive pressures, the result could have a material adverse effect on our business, financial condition and operating results. In addition, the current relationship with NEC Solutions (America), Inc. is a non-exclusive distributorship agreement and as such the gross margin will be lower than the margin we currently experience on our analog projectors. It is unclear at this time if this lower margin can be offset by the expected increased sales volume digital cinema is expected to add when the rollout occurs.

Expand Service Company. During fiscal 2006, we acquired the business of National Cinema Service Corp. (NCSC). This business was folded into a wholly-owned subsidiary, STS. STS is a national provider of cinema services including film and digital projector maintenance, repair, installations, site surveys and other services. STS will form a core business established to service the digital and film cinema marketplace. We believe that there will be increased demand for service due to the upcoming digital conversion as theatre operators may not have the necessary technical expertise to maintain the more technical nature of digital projectors and accessories. In addition, we feel that there are opportunities to provide service for other items at a theatre complex other than just maintaining the projection equipment.

Expand product offerings to theatre industry. We are focusing efforts at increasing our product offerings to the theatre industry to focus on being a one-stop shop to fully outfit a theatre auditorium.

Growth Strategy. Our strategy is to pursue complementary strategic acquisitions both within our current operating segments and also in other markets that would fit in our business plans. We expect to make acquisitions in the future. However, we cannot assure that we will be able to locate appropriate acquisitions in the future, that any identified candidates will be acquired or that acquired operations will be effectively integrated or prove profitable.

Expand International Presence. Sales outside the United States (mainly theatre sales) were 29% of total revenues in both 2006 and 2005, respectively. We believe that international sales will continue to account for a significant portion of our theatre sales and that film-related sales will continue for a number of years as the rollout of digital cinema will lag behind the U.S. in certain areas of the world. We are also working with NEC to expand our distribution territories for selling their digital projector line.

We are also seeking to strengthen and develop our international presence through an international dealer network and our sales force will continue to travel worldwide to market our products. Additionally, we continue to utilize our office in Hong Kong to further penetrate China and surrounding markets. We believe that as a result of these efforts, we are positioned to further expand our brand name recognition and international market share.

Improve Business Processes and Productivity. We have been implementing lean manufacturing at our Omaha facility over the last few years and have conducted numerous lean manufacturing projects. Production of critical product lines was converted from batch manufacturing processing to production lines improving flow through the plant, and therefore, productivity. We will also continue to reduce costs through a cost and inventory reduction program designed to bring costs and inventory in line with revenues.

Expand Lighting Segment. Despite the lighting divestitures made in recent years, our goal is to increase revenues using the remaining product lines within the segment and by increased emphasis on expanding our product offerings by developing and introducing new products and through strategic acquisitions.

Subsidiaries

We have three wholly-owned active subsidiaries: Design & Manufacturing, Inc., Strong Westrex, Inc. and Strong Technical Services, Inc.

Design & Manufacturing, Inc., located in Fisher, Illinois, is a manufacturer of film transport systems and also has a custom machine shop.

Strong Westrex, Inc. is the holding company for our sales and service office in Hong Kong.

Strong Technical Services, Inc. was formed in 2006 upon the purchase of NCSC to service the film and digital marketplace.

We also have two inactive subsidiaries.

Backlog

At December 31, 2006 and 2005, we had backlogs of \$5.7 million and \$6.0 million, respectively. Such backlogs mainly consisted of orders received with a definite shipping date within twelve months; however, these orders are subject to cancellation. Our products are manufactured and shipped within a few weeks following receipt of orders. The dollar amount of our order backlog is therefore not considered by management to be a leading indicator of our expected sales in any particular fiscal period.

Manufacturing

Our manufacturing operations are conducted in Omaha, Nebraska and Fisher, Illinois. Both facilities encompass design, fabrication, assembly and shipping of our various product lines. These central locations reduce our transportation costs and delivery times of products throughout the United States. Our manufacturing strategy is to minimize costs through manufacturing efficiencies. Efficiencies have been gained by implementing certain lean manufacturing strategies. Production cycle times have been reduced resulting in increased productivity and on-time deliveries. Improvements in material and product flow have resulted in a reduction of inventory, improved space utilization and workplace organization. Additional lean initiatives include setup and changeover reduction, which facilitates shorter production runs, and total productive maintenance, which increases equipment utilization by reducing production downtime.

We currently manufacture the majority of components used in the products we manufacture. We believe that our integrated manufacturing operations help maintain the high quality of our products, further aid lead time reductions and our ability to customize products to a customer's specifications. Our flexible workforce allows for the adjusting of the relative mix of products to meet demand. Manufacturing is mainly comprised of machining aluminum in casting and bar stock forms. Fabrication includes the punching, forming and welding of light gauge materials such as steel and aluminum. We also operate powder paint lines at both facilities. Outside contractors are utilized for further specialized processing such as plating, grinding, etc.

We currently utilize a single source for each of our intermittent movement components, reflectors, lenses and xenon lamps. Although we have not to-date experienced significant difficulty in obtaining these components, no assurance can be given that shortages will not arise in the future. The loss of any one or more of such suppliers could have a short-term adverse effect on our operations until alternative sources of supply could be secured. We are not dependent upon any one supplier for the balance of our raw materials and components. As part of our ongoing efforts, we continue to rationalize our vendor base and gain associated volume discounts.

Quality Control

We believe that our design standards, quality control procedures and the quality standards for the material and components used in our products have contributed significantly to the reputation of the products for high performance and reliability. Inspection of incoming material and components as well as the testing of all of the Company's products during various stages of assembly are key elements of this program.

Warranty Policy

We generally provide a warranty to end users for substantially all of our products, which normally covers a period of 12 months, but is extended under certain circumstances and for certain products. Under the Company's warranty policy, we will repair or replace defective products or components at our election. Costs of warranty service and product replacements were approximately \$160,000, \$343,000 and \$561,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Research and Development

Our ability to compete successfully depends, in part, upon our continued close work with existing and new customers. We focus research and development efforts on the development of new products based on customer and industry requirements. Research and development costs charged to operations amounted to approximately \$1,334,000, \$455,000 and \$328,000 for the years ended December 31, 2006, 2005 and 2004, respectively. The increase in research and development during 2006 pertains to expenses recorded on certain digital projectors at customer locations for testing purposes.

Patents and Trademarks

We own or otherwise have rights to numerous trademarks and trade names used in conjunction with the sale of our products. We currently own one patent. We believe our success will not be dependent upon patent or trademark protection, but rather upon our scientific and engineering know-how and research and production techniques.

Employees

As of March 16, 2007, we had a total of 197 employees. Of these employees, 123 were considered manufacturing, 3 were executive, 32 were considered service related and 39 were considered sales and administrative. We are not a party to any collective bargaining agreement and believe that the relationship with our employees is good.

Environmental Matters

We are subject to various federal, state and local laws and regulations pertaining to environmental protection and the discharge of material into the environment. During 2001, we were informed by a neighboring company of likely contaminated soil on certain parcels of land adjacent to Ballantyne's main manufacturing facility in Omaha, Nebraska. The Environmental Protection Agency and the Nebraska Health and Human Services System subsequently determined that certain parcels of Ballantyne property had various levels of contaminated soil relating to a former pesticide company which previously owned the property and that burned down in the 1960's. During October 2004, Ballantyne agreed to enter into an Administrative Order on Consent (AOC) to resolve the matter. The AOC holds Ballantyne and two other parties jointly and severally responsible for the cleanup. In this regard, the three parties have also entered into a Site Allocation Agreement by which they will divide past, current and future costs of the EPA, the costs of remediation and the cost of long term maintenance. In connection with the AOC, we

have paid our share of the costs. At December 31, 2006, we have provided for management's estimate of any future payments relating to this matter which is not material to the consolidated financial statements.

Stockholder Rights Plan

On May 26, 2000, the Board of Directors of the Company adopted a Stockholder Rights Plan. Under terms of the Rights Plan, which expires June 9, 2010, Ballantyne declared a distribution of one right for each outstanding share of common stock. The rights become exercisable only if a person or group (other than certain exempt persons as defined) acquires 15 percent or more of Ballantyne common stock or announces a tender offer for 15 percent or more of Ballantyne's common stock. Under certain circumstances, the Rights Plan allows stockholders, other than the acquiring person or group, to purchase our common stock at an exercise price of half the market price.

Executive Officers of the Company

John P. Wilmers, age 62, has been our CEO since March 1997 and a Director since 1995.

Ray F. Boegner, age 57, has been Senior Vice President since 1997. Mr. Boegner joined us in 1985 and has acted in various sales roles.

Kevin S. Herrmann, age 41, assumed the responsibilities of CFO, Corporate Secretary and Treasurer in November 2006. Prior to the appointment, Mr. Herrmann had been our Corporate Controller since 1997.

Information available on Ballantyne Website

We make available free of charge on our website (www.ballantyne-omaha.com) through a link to the Securities and Exchange Commission (SEC) website, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 159(d) of the Securities and Exchange Act of 1934, as amended, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC. However, information posted on our website is not part of the Form 10-K.

Corporate Governance Documents

The Board of Directors has adopted several corporate governance policies to address significant corporate governance issues. The Board of Directors has adopted the following governance documents:

- Code of Ethics
- Audit Committee Charter
- Compensation Committee
- Nominating Committee Charter
- Finance/Strategic Planning and Corporate Governance Committee
- Procedures for bringing concerns or complaints to the attention of the Audit Committee

These corporate governance documents are available in print to any stockholder upon request by writing to:

The Secretary

Ballantyne of Omaha, Inc.

4350 McKinley Street

Omaha, NE 68112

IA. Risk Factors

You should carefully consider the following risk factors and other information contained in this Annual Report on Form 10-K before investing in shares of our common stock. Investing in our common stock involves a high degree of risk. If any of the following risk factors actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our common stock could decline and you may lose part or all of your investment.

We may be unsuccessful in adapting to new or advancing technologies, such as digital cinema.

Although the theatre exhibition industry remains primarily based on the use of film technology to deliver motion picture images to the public, the transition to digital cinema began to show measurable progress in 2006 after several years of research and development.

We believe we are in a position to participate in the digital cinema marketplace either through our relationship with NEC Solutions (America), Inc. or through other relationships with other digital cinema providers. However, we cannot assure that we will successfully or competitively advance this technology as might be required. In addition, the current relationship with NEC Solutions (America), Inc. is a non-exclusive distributorship agreement and as such the gross margin will be lower than the margin we currently experience on our analog projectors. It is unclear at this time if this lower margin can be offset by the expected increased sales volume digital cinema is expected to add when the rollout occurs. Our agreement with NEC is not perpetual and could be terminated with 90 day advance written notice. If we are unable to maintain our relationship with NEC, or otherwise take advantage of future digital cinema opportunities or respond to the new competitive pressures, the result could have a material adverse impact on our business, financial condition and operating results.

Our financial results and growth depend largely on the health of the theatre exhibition industry.

During the years ended December 31, 2006 and 2005, approximately 92% of our revenues resulted from sales to the theatre exhibition industry. From fiscal years 2000 to 2002, this industry experienced an unprecedented three-year decline as overly aggressive building of megaplexes led to increased competition, significant declines in revenues per screen and, eventually, to a lack of operating capital by exhibition companies. Several exhibition companies filed for federal bankruptcy protection. This resulted in our revenues declining from \$83.4 million in fiscal 1999 to \$33.8 million in fiscal 2002. While the health of the theatre exhibition industry has improved significantly, there are still risks in the industry which result in continued exposure to Ballantyne.

Because our commercial motion picture projectors have an estimated useful life of approximately 20 years, net sales and profitability are primarily dependent upon growth in the number of motion picture screens and the renovation and replacement of commercial motion picture projection equipment in existing theatres. Approximately 92% of our total net sales were derived from sales of theatre products. Growth in the number of new motion picture screens may be adversely affected by the economy as a whole and recent trends toward industry consolidation. Both of these factors may also have an adverse effect on our customer base. A lack of motion picture screen growth would have a material adverse effect on our business, financial condition and results of operations.

We are substantially dependent upon significant customers who could cease purchasing our products at any time.

Our top ten customers accounted for approximately 45% of 2006 consolidated net revenues. The top ten customers were primarily from the theatre segment. In addition, sales to AMC Theatres, Inc. represented over 10% of consolidated sales. While we believe our relationships with such customers are stable, most arrangements are made by purchase order and are terminable at will by either party. A significant decrease or interruption in business from these significant customers could have a material

adverse effect on our business, financial condition and results of operations. We could also be adversely affected by such factors as changes in foreign currency rates and weak economic and political conditions in each of the countries in which we sell our products.

Our business is subject to the economic and political risks of selling products in foreign countries.

Sales outside the United States (mainly theatre sales) continue to be significant, accounting for 29% of consolidated sales in fiscal 2006 and 2005, respectively compared to 31% in fiscal 2004. We are seeking to expand our share of foreign sales, which we expect will continue to account for a significant portion of our revenues. Foreign sales are subject to political and economic risks, including political instability, currency controls, fluctuating exchange rates with respect to sales not denominated in U.S. dollars, changes in import/export regulations, tariffs and freight rates. To date, all of our foreign sales have been denominated in U.S. dollars, exclusive of sales resulting from our subsidiary in Hong Kong (\$3.3 million in fiscal 2006), which are denominated in Hong Kong dollars. A weakening in the value of foreign currencies relative to the U.S. dollar could have a material adverse impact on us by increasing the effective price of our products in international markets. In addition, there can be no assurance that our international customers will continue to accept orders denominated in U.S. dollars. To the extent that orders are denominated in foreign currencies, our reported sales and earnings are more directly subject to foreign exchange fluctuations. Certain areas of the world are also more cost conscious than the U.S. market and there are instances where our products are priced higher than local manufacturers. We cannot assure that these factors will not adversely affect our foreign sales in the future.

The markets for our products are highly competitive and if we fail to invest in product development and productivity improvements, our business could be materially adversely impacted.

The domestic and international markets for our product lines are highly competitive. Certain of our competitors for our equipment have significantly greater resources. In the theatre segment, we are experiencing new competition in the film motion picture industry as well as from the development of new technology for alternative means of motion picture presentation in the form of digital cinema. We cannot assure that our equipment (whether film or digital) will not become obsolete as technology advances. If we lose market share due to these issues, we may be unable to lower our cost structure quickly enough to offset the lost revenue. To counter these risks, we have initiated a cost reduction program, continue to streamline our manufacturing processes and have a strategy to respond to the digital marketplace. However, we cannot assure that this strategy will succeed or that it will be able to obtain adequate financing to take advantage of potential opportunities.

If we fail to retain key members of management, our business may be materially harmed.

Our success depends, in substantial part, on the efforts and abilities of our current management team. Many of these individuals have acquired specialized knowledge and skills with respect to Ballantyne and its operations. If certain of these individuals were to leave unexpectedly, we could face difficulty in hiring qualified successors and could experience a loss in productivity while any successor obtains the necessary training and experience.

Growth through acquisition is a part of our business plan and we may not be able to successfully identify, finance or integrate acquisitions.

As discussed in further detail in the Business Strategy portion of Item 1, our strategy is to pursue complementary strategic acquisitions in the theatre and in other markets that would fit in our business plans. We expect to make acquisitions in the future. However, we cannot assure that we will be able to locate appropriate acquisition candidates, that any identified candidates will be acquired or that acquired operations will be effectively integrated or prove profitable. Additionally, our credit facility with First

National Bank of Omaha currently prohibits Ballantyne from making acquisitions over \$7 million without the bank's consent.

Interruptions of, or higher prices of components from, certain suppliers may affect our results of operations and financial performance.

We utilize a single contract manufacturer for each of our intermittent movement components, lenses and xenon lamps. Although we have not, to date, experienced a significant difficulty in obtaining these components, we cannot assure that shortages will not arise in the future. The loss of any one or more of the contract manufacturers could have a short-term adverse effect on us until alternative manufacturing arrangements are secured. We are not dependent upon any one contract manufacturer or supplier for the balance of our raw materials and components. We believe that there are adequate alternative sources of such raw materials and components of sufficient quantity and quality, but cannot assure that this will continue to be the case.

In addition, volatility in the price for certain raw materials and components such as steel, fuel and lenses could adversely affect our financial results. In particular, the strengthening of the Euro has resulted in increased costs for lens purchases from our German supplier. Based on forecasted purchases during 2006, an average 10% devaluation of the dollar compared to the Euro would cost us approximately \$0.2 million.

Our stock price is vulnerable to significant fluctuations.

The trading price of our common stock has been highly volatile in the past and could be subject to significant fluctuations in response to variations in quarterly operating results, general conditions in the industries in which we operate and other factors. In addition, the stock market is subject to price and volume fluctuations affecting the market price for the stock of many companies generally, which fluctuations often are unrelated to operating performance.

Pending litigation could have a material adverse effect on our financial position, cash flows and results of operations.

Ballantyne is currently a defendant in an asbestos case entitled *Larry C. Stehman and Leila Stehman v. Asbestos Corporation, Limited and Ballantyne of Omaha, Inc. individually and as successor in interest to Strong International, Strong Electric Corporation and Century Projector Corporation, et al*, filed December 8, 2006 in the Superior Court of the State of California, County of San Francisco. We believe that we have strong defenses and intend to defend the suit vigorously. It is not possible at this time to predict the outcome of this case, or the amount of damages, if any, that a jury may award. The plaintiffs have made no monetary demand upon Ballantyne. It is possible that an adverse resolution of this case could have a material adverse effect on our financial position.

We are also a party to various other legal actions which are ordinary routine matters incidental to the Company's business. While management believes that the ultimate outcome of the matters individually and in the aggregate will not have a material impact on the financial position of the Company, no assurance can be given that an adverse decision in any of the cases would not, in fact, materially impact our financial position, cash flows and results of operations.

Certain anti-takeover provisions in Ballantyne's governing documents could make it more difficult for a third party to acquire Ballantyne.

The Board of Directors has adopted a Stockholder Rights Plan. Under the terms of the Rights Plan, which expires June 9, 2010, we declared a distribution of one right for each outstanding share of common stock. The rights become exercisable only if a person or group (other than certain exempt persons),

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acquires 15% or more of our common stock or announces a tender offer for 15% or more of our common stock. Under certain circumstances, the Rights Plan allows stockholders, other than the acquiring person or group, to purchase our common stock at a price that is one-half the market price.

Our Certificate of Incorporation also provides for, among other things, the issuance of 1,000,000 shares of preferred stock, par value \$0.01 per share. The Board of Directors is authorized, without stockholder approval, to cause Ballantyne to issue preferred stock in one or more series and to fix the voting powers and the designations, preferences and relative, participating, optional or other rights and restrictions of the preferred stock. Accordingly, we may issue a series of preferred stock in the future that will have preference over the common stock with respect to the payment of dividends and upon our liquidation, dissolution or winding up or have voting or conversion rights that could adversely affect the voting power and ownership percentages of the holders of common stock. Our Certificate of Incorporation also provides for the affirmative vote

of at least 667.50	1/1/21	4,685,000	4,684,250	Minnesota	1.4%	Minnesota Agricultural and	
Economic Development Board,			Health Care System Revenue			(Fairview Health Care Systems)	6.38
11/15/10	2,420,000 ^a	2,642,785	Minnesota Agricultural and			Economic Development Board,	Health
Care System Revenue			(Fairview Health Care Systems)	6.38	11/15/29	80,000	84,462

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Long-Term Municipal Investments (continued)

	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Mississippi 3.2%				
Mississippi Business Finance Corporation, PCR (System Energy Resources, Inc. Project)	5.88	4/1/22	6,000,000	6,064,500
Missouri 4.0%				
Missouri Development Finance Board, Infrastructure Facilities Revenue (Branson Landing Project)	5.00	6/1/35	2,500,000	2,351,875
Missouri Health and Educational Facilities Authority, Health Facilities Revenue (BJC Health System)	5.25	5/15/32	2,500,000	2,557,875
Missouri Health and Educational Facilities Authority, Health Facilities Revenue (Saint Anthony's Medical Center)	6.25	12/1/10	2,500,000 ^a	2,721,225
Missouri Housing Development Commission, SFMR (Homeownership Loan Program) (Collateralized: FNMA and GNMA)	6.30	9/1/25	140,000	141,450
Nevada 2.2%				
Clark County, IDR (Southwest Gas Corporation Project) (Insured; AMBAC)	6.10	12/1/38	4,000,000	4,242,560
New Jersey 3.5%				
New Jersey Economic Development Authority, Cigarette Tax				

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Revenue	5.50	6/15/31	1,610,000	1,657,608
New Jersey Turnpike Authority, Turnpike Revenue (Insured; AMBAC)	5.00	1/1/35	5,000,000	5,127,300
New Mexico 2.3%				
Farmington, PCR (Public Service Company of New Mexico San Juan Project)	6.30	12/1/16	3,000,000	3,065,010
New Mexico Mortgage Finance Authority, Single Family Mortgage Program (Collateralized: FHLMC and GNMA)	6.85	9/1/31	1,400,000	1,419,292

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
New York 2.3%				
Long Island Power Authority, Electric System General Revenue	5.00	9/1/27	1,500,000	1,540,545
New York State Dormitory Authority, Catholic Health Services of Long Island Obligated Group Revenue (Saint Francis Hospital Project)	5.00	7/1/27	2,930,000	2,884,585
North Carolina 3.1%				
Gaston County Industrial Facilities and Pollution Control Financing Authority, Exempt Facilities Revenue (National Gypsum Company Project)	5.75	8/1/35	1,500,000	1,529,625
North Carolina Eastern Municipal Power Agency, Power System Revenue	5.13	1/1/26	3,000,000	3,048,780
North Carolina Housing Finance Agency, Home Ownership Revenue	6.25	1/1/29	1,415,000	1,439,635
Ohio 5.0%				
Cuyahoga County, Hospital Improvement Revenue (The Metrohealth System Project)	6.13	2/15/09	5,000,000 ^a	5,223,150
Ohio Housing Finance Agency,				

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Residential Mortgage Revenue (Collateralized; GNMA)	5.75	9/1/30	35,000	35,271
Rickenbacker Port Authority, Capital Funding Revenue (OASBO Expanded Asset Pooled)	5.38	1/1/32	4,090,000	4,354,582
Oklahoma 1.4%				
Oklahoma Development Finance Authority, Revenue (Saint John Health System)	6.00	2/15/09	1,875,000 ^a	1,955,044
Oklahoma Development Finance Authority, Revenue (Saint John Health System)	6.00	2/15/29	625,000	647,469

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Oregon 2.7%				
Oregon Department of Transportation, Highway User Tax Revenue	5.00	11/15/28	5,000,000	5,192,500
Pennsylvania 6.2%				
Pennsylvania Economic Development Financing Authority, RRR (Northampton Generating Project)	6.60	1/1/19	3,500,000	3,515,295
Sayre Health Care Facilities Authority, Revenue (Guthrie Health)	5.88	12/1/11	5,995,000 ^a	6,574,297
Sayre Health Care Facilities Authority, Revenue (Guthrie Health)	5.88	12/1/31	1,755,000	1,833,870
Rhode Island 1.2%				
Rhode Island Housing and Mortgage Finance Corporation, Homeownership Opportunity Revenue	4.70	10/1/32	2,405,000	2,278,016
South Carolina 10.7%				
Lancaster Educational Assistance Program, Inc., Installment Purchase Revenue (The School District of Lancaster County, South Carolina, Project)	5.00	12/1/26	5,000,000	5,005,600
Medical University of South Carolina, Hospital Facilities Revenue	6.00	7/1/09	2,500,000 ^a	2,627,500
Piedmont Municipal Power Agency, Electric Revenue	5.25	1/1/21	3,500,000	3,549,875

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Securing Assets for Education, Installment Purchase Revenue (Berkeley County School District Project)	5.13	12/1/30	2,500,000	2,557,700
Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement Asset-Backed Bonds	6.38	5/15/28	2,900,000	2,983,781

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STATEMENT OF INVESTMENTS (continued)

Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
South Carolina (continued)				
Tobacco Settlement Revenue Management Authority of South Carolina, Tobacco Settlement Asset-Backed Bonds	6.38	5/15/30	3,750,000	3,944,063
Tennessee 1.1%				
Johnson City Health and Educational Facilities Board, Hospital First Mortgage Revenue (Mountain States Health Alliance)	5.50	7/1/36	2,000,000	2,026,860
Texas 11.5%				
Brazos River Harbor Navigation District, Revenue (The Dow Chemical Company Project) Cities of Dallas and Fort Worth, Dallas/Fort Worth International Airport, Joint Revenue Improvement (Insured; FSA)	4.95	5/15/33	2,000,000	1,952,480
Gregg County Health Facilities Development Corporation, HR (Good Shepherd Medical Center Project) (Insured; Radian)	5.00	11/1/35	1,600,000	1,600,864
Harris County Health Facilities Development Corporation, HR (Memorial Hermann Healthcare System)	6.38	10/1/10	2,500,000 ^a	2,722,675
Port of Corpus Christi Authority of Nueces County, Revenue	6.38	6/1/11	3,565,000 ^a	3,934,405

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(Union Pacific Corporation Project)	5.65	12/1/22	4,500,000	4,647,735
Texas (Veterans Housing Assistance Program) (Collateralized; FHA)	6.10	6/1/31	7,000,000	7,207,130
Utah 1.1%				
Utah Housing Finance Agency, SFMR (Collateralized; FHA)	6.00	1/1/31	170,000	173,220

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Long-Term Municipal Investments (continued)	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Vermont 1.1%				
Vermont Educational and Health Buildings Financing Agency, Revenue (Saint Michael's College Project)	6.00	10/1/28	1,500,000	1,635,825
Vermont Housing Finance Agency, SFHR (Insured; FSA)	6.40	11/1/30	460,000	465,198
Washington 2.7%				
Washington Higher Educational Facilities Authority, Revenue (Whitman College)	5.88	10/1/09	5,000,000 ^a	5,231,800
Wisconsin 5.0%				
Badger Tobacco Asset Securitization Corporation, Tobacco Settlement Asset-Backed Bonds	7.00	6/1/28	2,500,000	2,655,125
Wisconsin Health and Educational Facilities Authority, Revenue (Aurora Health Care, Inc.)	5.60	2/15/29	4,975,000	5,014,601
Wisconsin Health and Educational Facilities Authority, Revenue (Marshfield Clinic)	5.38	2/15/34	2,000,000	2,007,240
Wyoming 8%				
Sweetwater County, SWDR (FMC Corporation Project)	5.60	12/1/35	1,500,000	1,500,360
U.S. Related 9.5%				
Puerto Rico Highways and Transportation Authority, Transportation Revenue (Insured; MBIA)	5.00	7/1/38	8,000,000 ^{b,c}	8,167,120
Puerto Rico Highways and Transportation Authority, Transportation Revenue				

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(Insured; MBIA)	5.00	7/1/38	10,000,000 ^{b,c}	10,208,900
Total Long-Term Municipal Investments (cost \$284,660,973)				296,413,160

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STATEMENT OF INVESTMENTS (continued)

Short-Term Municipal Investments 1.4%	Coupon Rate (%)	Maturity Date	Principal Amount (\$)	Value (\$)
Florida 1.1%				
Lee Memorial Health System Board of Directors, HR (Lee Memorial Health System)	4.09	10/1/07	200,000 ^d	200,000
Illinois 1.1%				
Illinois Health Facilities Authority, Revenue (Central DuPage Health) (LOC; American National Bank and Trust Co. of Chicago)	4.07	10/1/07	200,000 ^d	200,000
Michigan 1.2%				
University of Michigan Regents, HR	4.00	10/1/07	2,200,000 ^d	2,200,000
Total Short-Term Municipal Investments (cost \$2,600,000)				2,600,000
Total Investments (cost \$287,260,973)			155.4%	299,013,160
Liabilities, Less Cash and Receivables			(3.4%)	(6,574,505)
Preferred Stock, at redemption value			(52.0%)	(100,000,000)
Net Assets Applicable to Common Shareholders			100.0%	192,438,655

^a These securities are prerefunded; the date shown represents the prerefunded date. Bonds which are prerefunded are collateralized by U.S. Government securities which are held in escrow and are used to pay principal and interest on the municipal issue and to retire the bonds in full at the earliest refunding date.

^b Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At September 30, 2007, these securities amounted to \$29,732,585 or 15.5% of net assets applicable to Common Shareholders.

^c Collateral for floating rate borrowings.

^d Securities payable on demand. Variable interest rate subject to periodic change.

Summary of Abbreviations

ACA	American Capital Access	AGC	ACE Guaranty Corporation
AGIC	Asset Guaranty Insurance Company	AMBAC	American Municipal Bond Assurance Corporation
ARRN	Adjustable Rate Receipt Notes	BAN	Bond Anticipation Notes
BIGI	Bond Investors Guaranty Insurance	BPA	Bond Purchase Agreement
CGIC	Capital Guaranty Insurance Company	CIC	Continental Insurance Company
CIFG	CDC Ixis Financial Guaranty	CMAC	Capital Market Assurance Corporation
COP	Certificate of Participation	CP	Commercial Paper
EDR	Economic Development Revenue	EIR	Environmental Improvement Revenue
FGIC	Financial Guaranty Insurance Company	FHA	Federal Housing Administration
FHLB	Federal Home Loan Bank	FHLMC	Federal Home Loan Mortgage Corporation
FNMA	Federal National Mortgage Association	FSA	Financial Security Assurance
GAN	Grant Anticipation Notes	GIC	Guaranteed Investment Contract
GNMA	Government National Mortgage Association	GO	General Obligation
HR	Hospital Revenue	IDB	Industrial Development Board
IDC	Industrial Development Corporation	IDR	Industrial Development Revenue
LOC	Letter of Credit	LOR	Limited Obligation Revenue
LR	Lease Revenue	MBIA	Municipal Bond Investors Assurance Insurance Corporation
MFHR	Multi-Family Housing Revenue	MFMR	Multi-Family Mortgage Revenue
PCR	Pollution Control Revenue	PILOT	Payment in Lieu of Taxes
RAC	Revenue Anticipation Certificates	RAN	Revenue Anticipation Notes
RAW	Revenue Anticipation Warrants	RRR	Resources Recovery Revenue
SAAN	State Aid Anticipation Notes	SBPA	Standby Bond Purchase Agreement
SFHR	Single Family Housing Revenue	SFMR	Single Family Mortgage Revenue
SONYMA	State of New York Mortgage Agency	SWDR	Solid Waste Disposal Revenue
TAN	Tax Anticipation Notes	TAW	Tax Anticipation Warrants
TRAN	Tax and Revenue Anticipation Notes	XLCA	XL Capital Assurance

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STATEMENT OF INVESTMENTS (continued)

Summary of Combined Ratings (Unaudited)

Fitch or Moody's or Standard & Poor's Value (%) □

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AAA	Aaa	AAA	26.9
AA	Aa	AA	16.9
A	A	A	29.6
BBB	Baa	BBB	20.3
B	B	B	1.2
F1	MIG1/P1	SP1/A1	1.0
Not Rated ^e	Not Rated ^e	Not Rated ^e	4.1
			100.0

□ Based on total investments.

^e Securities which, while not rated by Fitch, Moody's and Standard & Poor's, have been determined by the Manager to be of comparable quality to those rated securities in which the fund may invest.

See notes to financial statements.

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STATEMENT OF ASSETS AND LIABILITIES

September 30, 2007

	Cost	Value
Assets (\$):		
Investments in securities□See Statement of Investments	287,260,973	299,013,160
Cash		50,626
Interest receivable		4,901,603
Receivable for investment securities sold		3,464,171
Prepaid expenses		17,996
		307,447,556
Liabilities (\$):		
Due to The Dreyfus Corporation and affiliates□Note 3(b)		187,195
Payable for floating rate notes issued□Note 4		14,500,000
Interest and related expenses payable		165,948
Dividends payable to Preferred Shareholders		41,440
Commissions payable		14,828
Accrued expenses		99,490
		15,008,901
Auction Preferred Stock , Series A and B, par value \$.001 per share (4,000 shares issued and outstanding at \$25,000 per share liquidation preference)□Note 1		100,000,000
Net Assets applicable to Common Shareholders (\$)		192,438,655
Composition of Net Assets (\$):		
Common Stock, par value, \$.001 per share		

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(20,594,744 shares issued and outstanding)	20,595
Paid-in capital	185,627,788
Accumulated undistributed investment income [□] net	383,390
Accumulated net realized gain (loss) on investments	(5,345,305)
Accumulated net unrealized appreciation (depreciation) on investments	11,752,187
Net Assets applicable to Common Shareholders (\$)	192,438,655
Shares Outstanding	
(110 million shares authorized)	20,594,744
Net Asset Value , per share of Common Stock (\$)	9.34

See notes to financial statements.

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STATEMENT OF OPERATIONS

Year Ended September 30, 2007

Investment Income (\$):

Interest Income **17,559,553**

Expenses:

Management fee[□]Note 3(a) 2,073,939

Interest and related expenses 695,475

Commission fees[□]Note 1 266,407

Professional fees 78,304

Shareholders[□] reports 42,804

Shareholder servicing costs[□]Note 3(b) 34,320

Custodian fees[□]Note 3(b) 22,416

Registration fees 15,000

Directors[□] fees and expenses[□]Note 3(c) 6,193

Miscellaneous 43,723

Total Expenses **3,278,581**

Investment Income[□]Net **14,280,972**

Realized and Unrealized Gain (Loss) on Investments[□]Note 4 (\$):

Net realized gain (loss) on investments 372,141

Net unrealized appreciation (depreciation) on investments (7,360,730)

Net Realized and Unrealized Gain (Loss) on Investments **(6,988,589)**

Dividends on Preferred Stocks **(3,613,991)**

Net Increase in Net Assets Resulting from Operations **3,678,392**

See notes to financial statements.

STATEMENT OF CHANGES IN NET ASSETS

	Year Ended September 30,	
	2007	2006
Operations (\$):		
Investment income [□] net	14,280,972	13,452,056
Net realized gain (loss) on investments	372,141	553,292
Net unrealized appreciation (depreciation) on investments	(7,360,730)	(804,643)
Dividends on Preferred Stocks	(3,613,991)	(3,125,231)
Net Increase (Decrease) in Net Assets Resulting from Operations	3,678,392	10,075,474
Dividends to Common Shareholders from (\$):		
Investment income[□]net	(10,130,835)	(10,624,089)
Capital Stock Transactions (\$):		
Dividends reinvested	51,799	□
Total Increase (Decrease) in Net Assets	(6,400,644)	(548,615)
Net Assets (\$):		
Beginning of Period	198,839,299	199,387,914
End of Period	192,438,655	198,839,299
Undistributed (distributions in excess of) investment income [□] net	383,390	(139,676)
Capital Share Transactions (Shares):		
Increase in Shares Outstanding as a Result of Dividends Reinvested	5,424	□

See notes to financial statements.

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FINANCIAL HIGHLIGHTS

The following table describes the performance for the fiscal periods indicated. Total return shows how much your investment in the fund would have increased (or decreased) during each period, assuming you had reinvested all dividends and dis-tributions. These figures have been derived from the fund's financial statements, and with respect to common stock, market price data for the fund's common shares.

	Year Ended September 30,				
	2007	2006	2005	2004	2003

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Per Share Data (\$):

Net asset value, beginning of period	9.66	9.68	9.51	9.51	9.78
Investment Operations:					
Investment income□net ^a	.69	.65	.68	.69	.72
Net realized and unrealized gain (loss) on investments	(.34)	.00 ^b	.21	.09	(.24)
Dividends on Preferred Stock from investment income□net	(.18)	(.15)	(.10)	(.06)	(.07)
Total from Investment Operations	.17	.50	.79	.72	.41
Distributions to Common Shareholders:					
Dividends from investment income□net	(.49)	(.52)	(.62)	(.72)	(.68)
Net asset value, end of period	9.34	9.66	9.68	9.51	9.51
Market value, end of period	8.67	9.17	9.35	10.25	9.69
Total Return (%) ^c	(.34)	3.86	(2.58)	14.08	8.48

Ratios/Supplemental Data (%):

Ratio of total expenses to average net assets applicable to Common Stock ^d	1.67	1.61	1.48	1.40	1.42
Ratio of net investment income to average net assets applicable to Common Stock ^d	7.28	6.83	7.03	7.29	7.60
Ratio of total expenses to total average net assets	1.11	1.06	.99	.93	.94
Ratio of net investment income to total average net assets	4.82	4.53	4.67	4.81	5.02
Portfolio Turnover Rate	10.30	10.09	12.62	6.72	9.88
Asset coverage of Preferred Stock, end of period	292	300	299	295	294
Net Assets, net of Preferred Stock, end of period (\$ x 1,000)	192,439	198,839	199,388	195,395	194,390
Preferred Stock outstanding, end of period (\$ x 1,000)	100,000	100,000	100,000	100,000	100,000

^a Based on average shares outstanding at each month end.

^b Amount represents less than \$.01 per share.

^c Calculated based on market value.

^d Does not reflect the effect of dividends to Preferred Stockholders.

See notes to financial statements.

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NOTES TO FINANCIAL STATEMENTS

NOTE 1□Significant Accounting Policies:

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Dreyfus Municipal Income, Inc. (the "fund") is registered under the Investment Company Act of 1940, as amended (the "Act"), as a non-diversified closed-end management investment company. The fund's investment objective is to maximize current income exempt from federal income tax to the extent consistent with the preservation of capital. The Dreyfus Corporation (the "Manager" or "Dreyfus") serves as the fund's investment adviser. On July 1, 2007, Mellon Financial Corporation ("Mellon Financial") and The Bank of New York Company, Inc. merged, forming The Bank of New York Mellon Corporation ("BNY Mellon"). As part of this transaction, Dreyfus became a wholly-owned subsidiary of BNY Mellon. The fund's Common Stock trades on the American Stock Exchange under the ticker symbol DMF.

The fund has outstanding 2,000 shares of Series A and 2,000 shares of Series B Auction Preferred Stock ("APS"), with a liquidation preference of \$25,000 per share (plus an amount equal to accumulated but unpaid dividends upon liquidation). APS dividend rates are determined pursuant to periodic auctions. Deutsche Bank Trust Company America, as Auction Agent, receives a fee from the fund for its services in connection with such auctions. The fund also compensates broker-dealers generally at an annual rate of .25% of the purchase price of the shares of APS placed by the broker-dealer in an auction.

The fund is subject to certain restrictions relating to the APS. Failure to comply with these restrictions could preclude the fund from declaring any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of APS at liquidation value.

The holders of the APS, voting as a separate class, have the right to elect at least two directors. The holders of the APS will vote as a separate class on certain other matters, as required by law. The fund has designated Whitney I. Gerard and George L. Perry to represent holders of APS on the fund's Board of Directors.

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NOTES TO FINANCIAL STATEMENTS (continued)

The fund's financial statements are prepared in accordance with U.S. generally accepted accounting principles, which may require the use of management estimates and assumptions. Actual results could differ from those estimates.

The fund enters into contracts that contain a variety of indemnifications. The fund's maximum exposure under these arrangements is unknown. The fund does not anticipate recognizing any loss related to these arrangements.

(a) Portfolio valuation: Investments in municipal debt securities are valued on the last business day of each week and month by an independent pricing service (the "Service") approved by the Board of Directors. Investments for which quoted bid prices are readily available and are representative of the bid side of the market in the judgment of the Service are valued at the mean between the quoted bid prices (as obtained by the Service from dealers in such securities) and asked prices (as calculated by the Service based upon its evaluation of the market for such securities). Other investments (which constitute a majority of the portfolio securities) are carried at fair value as determined by the Service, based on methods which include consideration of: yields or prices of municipal securities of comparable quality, coupon, maturity and type; indications as to values from dealers; and general market conditions. Options and financial futures on municipal and U.S. Treasury securities are valued at the last sales price on the securities exchange on which such securities are primarily traded or at the last sales price on the national securities market on the last business day of each week and month.

The Financial Accounting Standards Board ("FASB") released Statement of Financial Accounting Standards No. 157 "Fair Value Measurements" ("FAS 157"). FAS 157 establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures about fair-value measurements. The application of FAS 157 is required for fiscal years beginning after

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November 15, 2007 and interim periods within those fiscal years. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

(b) Securities transactions and investment income: Securities transactions are recorded on a trade date basis. Realized gain and loss from securities transactions are recorded on the identified cost basis. Interest income, adjusted for accretion of discount and amortization of premium on investments, is earned from settlement date and recognized on the accrual basis. Securities purchased or sold on a when-issued or delayed-delivery basis may be settled a month or more after the trade date.

(c) Dividends to shareholders of Common Stock (□Common Shareholder(s)□): Dividends are recorded on the ex-dividend date. Dividends from investment income-net are declared and paid monthly. Dividends from net realized capital gain, if any, are normally declared and paid annually, but the fund may make distributions on a more frequent basis to comply with the distribution requirements of the Internal Revenue Code of 1986, as amended (the □Code□). To the extent that net realized capital gain can be offset by capital loss carryovers, it is the policy of the fund not to distribute such gain. Income and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles.

For Common Shareholders who elect to receive their distributions in additional shares of the fund, in lieu of cash, such distributions will be reinvested at the lower of the market price or net asset value per share (but not less than 95% of the market price) as defined in the dividend reinvestment and cash purchase plan.

On September 27, 2007, the Board of Directors declared a cash dividend of \$.041 per share from investment income-net, payable on October 31, 2007 to Common Shareholders of record as of the close of business on October 11, 2007.

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NOTES TO FINANCIAL STATEMENTS *(continued)*

(d) Dividends to shareholders of APS: For APS, dividends are currently reset every 7 days for Series A and Series B. The dividend rates in effect at September 30, 2007 were as follows: Series A 3.80% and Series B 3.75% .

(e) Federal income taxes: It is the policy of the fund to continue to qualify as a regulated investment company, which can distribute tax exempt dividends, by complying with the applicable provisions of the Code and to make distributions of income and net realized capital gain sufficient to relieve it from substantially all federal income and excise taxes.

The FASB released FASB Interpretation No. 48 □Accounting for Uncertainty in Income Taxes□ (FIN 48). FIN 48 provides guidance for how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the fund's tax returns to determine whether the tax positions are □more-likely-than-not□ of being sustained by the applicable tax authority. Tax positions not deemed to meet the more likely-than-not threshold would be recorded as a tax benefit or expense in the current year. Adoption of FIN 48 is required for fiscal years beginning after December 15, 2006 and is to be applied to all open tax years as of the effective date. Management does not believe that the application of this standard will have a material impact on the financial statements of the fund.

At September 30, 2007, the components of accumulated earnings on a tax basis were as follows: undistributed tax exempt income \$430,197, accumulated capital losses \$5,448,823 and unrealized appreciation \$11,855,705.

The accumulated capital loss carryover is available to be applied against future net securities profits, if any, realized subsequent to September 30, 2007. If not applied, \$604,058 of the carryover expires in fiscal 2009, \$1,413,550 expires in fiscal 2010, \$360,799 expires in fiscal 2011 and \$3,070,416 expires in fiscal 2012.

The tax characters of distributions paid to shareholders during the fiscal periods ended September 30, 2007 and September 30, 2006, were as follows: tax exempt income \$13,744,826 and \$13,749,320, respectively.

During the period ended September 30, 2007, as a result of permanent book to tax differences, primarily due to the tax treatment for amortization adjustments, the fund decreased accumulated undistributed investment income-net by \$13,080 and increased net realized gain (loss) on investments by the same amount. Net assets and net asset value per share were not affected by this reclassification.

NOTE 2 Bank Line of Credit:

The fund participates with other Dreyfus-managed funds in a \$100 million unsecured line of credit primarily to be utilized for temporary or emergency purposes. Interest is charged to the fund based on prevailing market rates in effect at the time of borrowing. During the period ended September 30, 2007, the fund did not borrow under the Facility.

NOTE 3 Management Fee and Other Transactions With Affiliates:

(a) Pursuant to a management agreement (Agreement) with the Manager, the management fee is computed at the annual rate of .70% of the value of the fund's average daily net assets, inclusive of the outstanding auction preferred stock, and is payable monthly. The Agreement provides that if in any full fiscal year the aggregate expenses of the fund, exclusive of taxes, interest on borrowings, brokerage fees and extraordinary expenses, exceed the expense limitation of any state having jurisdiction over the fund, the fund may deduct from payments to be made to the Manager, or the Manager will bear, the amount of such excess to the extent required by state law. During the period ended September 30, 2007, there was no expense reimbursement pursuant to the Agreement.

(b) The fund compensates Mellon Bank, N.A. (Mellon), an affiliate of the Manager, under a transfer agency agreement for providing personnel and facilities to perform transfer agency services for the fund. During the period ended September 30, 2007, the fund was charged \$18,715 pursuant to the transfer agency agreement.

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NOTES TO FINANCIAL STATEMENTS (continued)

The fund compensates Mellon under a custody agreement for providing custodial services for the fund. During the period ended September 30, 2007, the fund was charged \$22,416 pursuant to the custody agreement.

During the period ended September 30, 2007, the fund was charged \$4,579 for services performed by the Chief Compliance Officer.

The components of Due to The Dreyfus Corporation and affiliates in the Statement of Assets and Liabilities consist of: management fees \$167,968, custodian fees \$9,633, transfer agency fees \$7,183 and chief compliance officer fees \$2,411.

(c) Each Board member also serves as a Board member of other funds within the Dreyfus complex. Annual retainer fees and attendance fees are allocated to each fund based on net assets.

NOTE 4 Securities Transactions:

The aggregate amount of purchases and sales of investment securities, excluding short-term securities, during the period ended September 30, 2007, amounted to \$32,811,950 and \$34,320,571, respectively.

The fund may participate in Secondary Inverse Floater Structures in which fixed-rate, tax-exempt municipal bonds purchased by the fund are transferred to a trust. The trust subsequently issues two or more variable rate securities that are collateralized by the cash flows of the fixed-rate, tax-exempt municipal bonds. One or more of these variable rate securities pays interest based on a floating rate set by a remarketing agent at predetermined intervals. A residual interest tax-exempt security is also created by the trust, which is transferred to the fund, and is paid interest based on the remaining cash flow of the trust, after payment of interest on the other securities and various expenses of the trust.

The fund accounts for the transfer of bonds to the trust as secured borrowings, with the securities transferred remaining in the fund's investments, and the related floating rate certificate securities reflected as fund liabilities under the caption, "Payable for floating rate notes issued" in the Statement of Assets and Liabilities.

At September 30, 2007, the cost of investments for federal income tax purposes was \$272,657,455; accordingly, accumulated net unrealized appreciation on investments was \$11,855,705, consisting of \$13,245,839 gross unrealized appreciation and \$1,390,134 gross unrealized depreciation.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors Dreyfus Municipal Income, Inc.

We have audited the accompanying statement of assets and liabilities of Dreyfus Municipal Income, Inc., including the statement of investments, as of September 30, 2007, and the related statement of operations for the year then ended, the statement of changes in net assets for each of the two years in the period then ended, and financial highlights for each of the years indicated therein. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included verification by examination of securities held by the custodian as of September 30, 2007 and confirmation of securities not held by the custodian by correspondence with others. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Dreyfus Municipal Income, Inc. at September 30, 2007, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the indicated years, in conformity with U.S. generally accepted accounting principles.

New York, New York
November 13, 2007

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ADDITIONAL INFORMATION (U n a u d i t e d)

Dividend Reinvestment Plan

Under the fund's Dividend Reinvestment Plan (the "Plan"), a Common Shareholder who has fund shares registered in his name will have all dividends and distributions reinvested automatically by Mellon, as Plan agent

(the [Agent]), in additional shares of the fund at the lower of prevailing market price or net asset value (but not less than 95% of market value at the time of valuation) unless such Common Shareholder elects to receive cash as provided below. If market price is equal to or exceeds net asset value, shares will be issued at net asset value. If net asset value exceeds market price or if a cash dividend only is declared, the Agent, as agent for the Plan participants, will buy fund shares in the open market. A Plan participant is not relieved of any income tax that may be payable on such dividends or distributions.

A Common Shareholder who owns fund shares registered in nominee name through his broker/dealer (i.e., in [street name]) may not participate in the Plan, but may elect to have cash dividends and distributions reinvested by his broker/dealer in additional shares of the fund if such service is provided by the broker/dealer; otherwise such dividends and distributions will be treated like any other cash dividend or distribution.

A Common Shareholder who has fund shares registered in his name may elect to withdraw from the Plan at any time for a \$5.00 fee and thereby elect to receive cash in lieu of shares of the fund. Changes in elections must be in writing, sent to Mellon, c/o Mellon Investor Services, Shareholder Investment Plan, P.O. Box 358035, Pittsburgh, PA 15252-8035, should include the shareholder's name and address as they appear on the Agent's records and will be effective only if received more than ten business days prior to the record date for any distribution.

The Agent maintains all Common Shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account. Shares in the account of each Plan participant will be held by the Agent in non-certificated form in the name of the participant, and each such participant's proxy will include those shares purchased pursuant to the Plan.

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ADDITIONAL INFORMATION (U n a u d i t e d) (continued)

The fund pays the Agent's fee for reinvestment of dividends and distributions. Plan participants pay a pro rata share of brokerage commissions incurred with respect to the Agent's open market purchases in connection with the reinvestment of dividends or distributions.

The fund reserves the right to amend or terminate the Plan as applied to any dividend or distribution paid subsequent to notice of the change sent to Plan participants at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by the Agent on at least 90 days' written notice to Plan participants.

Level Distribution Policy

The fund's dividend policy is to distribute substantially all of its net investment income to its shareholders on a monthly basis. In order to provide shareholders with a more consistent yield to the current trading price of shares of Common Stock of the fund, the fund may at times pay out less than the entire amount of net investment income earned in any particular month and may at times in any month pay out such accumulated but undistributed income in addition to net investment income earned in that month. As a result, the dividends paid by the fund for any particular month may be more or less than the amount of net investment income earned by the fund during such month. The fund's current accumulated but undistributed net investment income, if any, is disclosed in the Statement of Assets and Liabilities and Notes to Financial Statements, which comprises part of the Financial Information included in this report.

Benefits and Risks of Leveraging

The fund utilizes leverage to seek to enhance the yield and net asset value of its Common Stock. These objectives cannot be achieved in all interest rate environments. To leverage, the fund issues Preferred stock, which pays dividends at prevailing short-term interest rates, and invests the proceeds in long-term municipal bonds. The interest earned on these investments is paid to Common Shareholders in the form of div-

dividends, and the value of these portfolio holdings is reflected in the per share net asset value of the fund's common stock. In order to benefit Common shareholders, the yield curve must be positively sloped: that is, short-term interest rates must be lower than long-term interest rates. At the same time, a period of generally declining interest rates will benefit Common Shareholders. If either of these conditions change, then the risk of leveraging will begin to outweigh the benefits.

Supplemental Information

During the period ended September 30, 2007, there were: (i) no material changes in the fund's investment objectives or fundamental investment policies, (ii) no changes in the fund's charter or by-laws that would delay or prevent a change of control of the fund, (iii) no material changes in the principal risk factors associated with investment in the fund, and (iv) no change in the person primarily responsible for the day-to-day management of the fund's portfolio.

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IMPORTANT TAX INFORMATION (Unaudited)

In accordance with federal tax law, the fund hereby designates all the dividends paid from investment income-net during its fiscal year ended September 30, 2007 as "exempt-interest dividends" (not generally subject to regular federal income tax). As required by federal tax law rules, shareholders will receive notification of their portion of the fund's taxable ordinary dividends (if any) and capital gains distributions (if any) paid for the 2007 calendar year on Form 1099-DIV and their portion of the fund's tax-exempt dividends paid for 2007 calendar year on Form 1099-INT, both which will be mailed by January 31, 2008.

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PROXY RESULTS (Unaudited)

Holders of Auction Preferred Stock ("APS") voted on the following proposal presented at the annual shareholders' meeting held on May 18, 2007 as follows:

	_____	Shares _____
For	_____	Authority Withheld _____
To elect one Class II Director: □		
Whitney I. Gerard	3,531	0

The term of the Class II Director expires in 2007.

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INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited)

At a meeting of the fund's Board of Directors held on July 19 and 20, 2007, the Board considered the re-approval for an annual period (through August 31, 2008) of the fund's Management Agreement with Dreyfus, pursuant to

which Dreyfus provides the fund with investment advisory and administrative services. The Board members, none of whom are "interested persons" (as defined in the Investment Company Act of 1940, as amended) of the fund were assisted in their review by independent legal counsel and met with counsel in executive session separate from representatives of Dreyfus.

Analysis of Nature, Extent and Quality of Services Provided to the Fund. The Board members received a presentation from representatives of Dreyfus regarding services provided to the fund and other funds in the Dreyfus fund complex, and discussed the nature, extent and quality of the services provided to the fund pursuant to its Management Agreement. Dreyfus' representatives noted the fund's closed-end structure, the relationships Dreyfus has with various intermediaries complex-wide and Dreyfus' corresponding need for broad, deep, and diverse resources to be able to provide ongoing services to intermediaries and shareholders.

The Board members also considered Dreyfus' research and portfolio management capabilities and that Dreyfus also provides oversight of day-to-day fund operations, including fund accounting and administration and assistance in meeting legal and regulatory requirements. The Board members also considered Dreyfus' extensive administrative, accounting and compliance infrastructure.

Comparative Analysis of the Fund's Performance and Management Fee and Expense Ratio. The Board members reviewed the fund's performance and comparisons to a group of closed-end leveraged general municipal debt funds (the "Performance Group") and to a larger universe of funds, consisting of all closed-end leveraged general municipal debt funds (the "Performance Universe"), selected and provided by Lipper, Inc., an independent provider of investment company data. The Board was provided with a description of the methodology Lipper used

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to select the Performance Group and Performance Universe, as well as the Expense Group and Expense Universe (discussed below). The Board members discussed the results of the comparisons for various periods ended May 31, 2007. The Board noted that the fund's yield for one-year periods ended May 31st for 1998 - 2007 variously was above, at and below the Performance Group and Performance Universe medians, measured on both a net asset value basis and a market price basis. The Board members noted that the fund's total return performance based on net asset value variously was above or at the Performance Group and Performance Universe medians for all periods (except the one-year periods), while market price total return was variously above and below the Performance Group and below the Performance Universe medians for the periods. Dreyfus also provided a comparison of the fund's calendar year total returns to the returns of its Lipper category average for the prior ten years.

The Board members also discussed the fund's management fee and expense ratio and reviewed the range of management fees and expense ratios of a comparable group of funds (the "Expense Group") and a broader group of funds (the "Expense Universe"), each selected and provided by Lipper. The Board members noted that the fund's management fee was higher than the Expense Group and Expense Universe medians based on either common shares alone or common and preferred shares together. The fund's expense ratios based on common shares alone and based on common and preferred shares together were higher than Expense Group and Expense Universe medians.

Representatives of Dreyfus noted the other closed-end funds managed by Dreyfus or its affiliates with similar investment objectives, policies and strategies and included in the fund's Lipper category (the "Similar Funds"), and stated that there were no other funds or accounts managed by Dreyfus or its affiliates with similar investment objectives, policies and strategies as the fund. The Board members considered the relevance of the fee information provided for the Similar Funds to evaluate the appropriateness and reasonableness of the fund's management fee.

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INFORMATION ABOUT THE REVIEW AND APPROVAL OF THE FUND'S MANAGEMENT AGREEMENT (Unaudited) (continued)

Analysis of Profitability and Economies of Scale. Dreyfus' representatives reviewed the dollar amount of expenses allocated and profit received by Dreyfus and the method used to determine such expenses and profit. The Board considered information, previously provided and discussed, prepared by an independent consulting firm regarding Dreyfus' approach to allocating costs to, and determining the profitability of, individual funds and the entire Dreyfus mutual fund complex. The Board members also considered that the methodology had also been reviewed by an independent registered public accounting firm which, like the consultant, found the methodology to be reasonable. The consulting firm also analyzed where any economies of scale might emerge in connection with the management of the fund. The Board members evaluated the profitability analysis in light of the relevant circumstances for the fund and the extent to which economies of scale would be realized if the fund grows and whether fee levels reflect these economies of scale for the benefit of fund investors. The Board members also considered potential benefits to Dreyfus from acting as investment adviser and noted that there were no soft dollar arrangements with respect to trading the fund's investments.

It was noted that the Board members should consider Dreyfus' profitability with respect to the fund as part of their evaluation of whether the fees under the Management Agreement bear a reasonable relationship to the mix of services provided by Dreyfus, including the nature, extent and quality of such services. It was noted that a discussion of economies of scale is predicated on increasing assets and that because the fund is a closed-end fund without daily inflows and outflows of capital there were not at this time significant economies of scale to be realized by Dreyfus in managing the fund's assets. It also was noted that the profitability percentage for managing the fund was within ranges determined by appropriate court cases to be reasonable given the services rendered and generally superior service levels provided.

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At the conclusion of these discussions, the Board agreed that it had been furnished with sufficient information to make an informed business decision with respect to continuation of the Management Agreement. Based on the discussions and considerations as described above, the Board made the following conclusions and determinations.

- The Board concluded that the nature, extent and quality of the services provided by Dreyfus are adequate and appropriate.
- The Board was generally satisfied with the fund's overall performance.
- The Board concluded that the fee paid by the fund to Dreyfus was reasonable in light of the services provided, comparative performance, expense and management fee information, costs of the services provided and profits to be realized and benefits derived or to be derived by Dreyfus from its relationship with the fund.
- The Board determined that the economies of scale which may accrue to Dreyfus and its affiliates in connection with the management of the fund had been adequately considered by Dreyfus in connection with the management fee rate charged to the fund and that, to the extent in the future it were determined that material economies of scale had not been shared with the fund, the Board would seek to have those economies of scale shared with the fund.

The Board members considered these conclusions and determinations, along with information received on a routine and regular basis throughout the year, and, without any one factor being dispositive, the Board determined that re-approval of the Management Agreement was in the best interests of the fund and its shareholders.

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BOARD MEMBERS INFORMATION (Unaudited)

Joseph S. DiMartino (63) Chairman of the Board (1995)

Principal Occupation During Past 5 Years:

Corporate Director and Trustee

Other Board Memberships and Affiliations:

The Muscular Dystrophy Association, Director

Century Business Services, Inc., a provider of outsourcing functions for small and medium size companies, Director

The Newark Group, a provider of a national market of paper recovery facilities, paperboard mills and paperboard converting plants, Director

Sunair Services Corporation, a provider of certain outdoor-related services to homes and businesses, Director

No. of Portfolios for which Board Member Serves: 163

Clifford L. Alexander, Jr. (74)

Board Member (2003)

Principal Occupation During Past 5 Years:

President of Alexander & Associates, Inc., a management consulting firm (January 1981-present)

Chairman of the Board of Moody's Corporation (October 2000-October 2003)

Other Board Memberships and Affiliations:

Mutual of America Life Insurance Company, Director

No. of Portfolios for which Board Member Serves: 53

David W. Burke (71)

Board Member (1994)

Principal Occupation During Past 5 Years:

Corporate Director and Trustee

Other Board Memberships and Affiliations:

John F. Kennedy Library Foundation, Director

No. of Portfolios for which Board Member Serves: 88

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Whitney I. Gerard (72)

Board Member (1998)

Principal Occupation During Past 5 Years:

Partner of Chadbourne & Parke LLP

No. of Portfolios for which Board Member Serves: 28

George L. Perry (73)

Board Member (1989)

Principal Occupation During Past 5 Years:

Economist and Senior Fellow at Brookings Institution

No. of Portfolios for which Board Member Serves: 26

Once elected all Board Members serve for an indefinite term, but achieve Emeritus status upon reaching age 80. The address of the Board Members and Officers is in c/o The Dreyfus Corporation, 200 Park Avenue, New York, New York 10166. Additional information about the Board Members is available in the fund's Statement of Additional Information which can be obtained from Dreyfus free of charge by calling this toll free number: 1-800-554-4611.

Lucy Wilson Benson, Emeritus Board Member Arthur A. Hartman, Emeritus Board Member

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OFFICERS OF THE FUND (Unaudited)

J. DAVID OFFICER, President since December 2006.

Chief Operating Officer, Vice Chairman and a Director of the Manager, and an officer of 82 investment companies (comprised of 163 portfolios) managed by the Manager. He is 59 years old and has been an employee of the

PHILLIP N. MAISANO, Executive Vice President since July 2007.

Chief Investment Officer, Vice Chair and a director of the Manager, and an officer of 82 investment companies (comprised of 163 portfolios) managed by the Manager. Mr. Maisano also is an officer and/or Board member of certain other investment management subsidiaries of The Bank of New York Mellon Corporation, each of which is an affiliate of the Manager. He is 60 years old and has been an employee of the Manager since November 2006. Prior to joining the Manager, Mr. Maisano served as Chairman and Chief Executive Officer of EACM Advisors, an affiliate of the Manager, since August 2004, and served as Chief Executive Officer of Evaluation Associates, a leading institutional investment

JOSEPH P. DARCY, Executive Vice President since March 2000.

Executive Vice President of the Fund, Senior Portfolio Manager of Dreyfus Municipal Securities, and an officer of 1 other investment company (comprised of 1 portfolio) managed by

the Manager. He is 49 years old and has been an employee of the Manager since May 1994.

MICHAEL A. ROSENBERG, Vice President and Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 47 years old and has been an

JAMES BITETTO, Vice President and Assistant Secretary since August 2005.

Associate General Counsel and Assistant Secretary of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 41 years old and has been an employee of the Manager since December 1996.

JONI LACKS CHARATAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. She is 51 years old and has been an employee of the Manager since October 1988.

JOSEPH M. CHIOFFI, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 45 years old and has been an employee of the Manager since June 2000.

JANETTE E. FARRAGHER, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. She is 44 years old and has been an employee of the Manager since February 1984.

JOHN B. HAMMALIAN, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 44 years old and has been an employee of the Manager since February 1991.

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ROBERT R. MULLERY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 55 years old and has been an employee of the Manager since May 1986.

JEFF PRUSNOFSKY, Vice President and Assistant Secretary since August 2005.

Associate General Counsel of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 42 years old and has been an employee of the Manager since October 1990.

JAMES WINDELS, Treasurer since November 2001.

Director of Mutual Fund Accounting of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 49 years old and has been an employee of the Manager since April 1985.

ROBERT ROBOL, Assistant Treasurer since August 2005.

Senior Accounting Manager of Money Market and Municipal Bond Funds of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 43 years old and has been an employee of the Manager since October 1988.

**ROBERT SALVILOLO, Assistant Treasurer
since May 2007.**

Senior Accounting Manager □ Equity Funds of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since June 1989.

**ROBERT SVAGNA, Assistant Treasurer
since December 2005.**

Senior Accounting Manager □ Equity Funds of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 40 years old and has been an employee of the Manager since November 1990.

**GAVIN C. REILLY, Assistant Treasurer
since December 2005.**

Tax Manager of the Investment Accounting and Support Department of the Manager, and an officer of 83 investment companies (comprised of 180 portfolios) managed by the Manager. He is 39 years old and has been an employee of the Manager since April 1991.

**JOSEPH W. CONNOLLY, Chief Compliance
Officer since October 2004.**

Chief Compliance Officer of the Manager and The Dreyfus Family of Funds (83 investment companies, comprised of 180 portfolios). From November 2001 through March 2004, Mr. Connolly was first Vice-President, Mutual Fund Servicing for Mellon Global Securities Services. In that capacity, Mr. Connolly was responsible for managing Mellon's Custody, Fund Accounting and Fund Administration services to third-party mutual fund clients. He is 50 years old and has served in various capacities with the Manager since 1980, including manager of the firm's Fund Accounting Department from 1997 through October 2001.

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Item 2. Code of Ethics.

The Registrant has adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. There have been no amendments to, or waivers in connection with, the Code of Ethics during the period covered by this Report.

Item 3. Audit Committee Financial Expert.

The Registrant's Board has determined that Joseph S. DiMartino, a member of the Audit Committee of the Board, is an audit committee financial expert as defined by the Securities and Exchange Commission (the "SEC"). Joseph S. DiMartino is "independent" as defined by the SEC for purposes of audit committee financial expert determinations.

Item 4. Principal Accountant Fees and Services

(a) Audit Fees. The aggregate fees billed for each of the last two fiscal years (the "Reporting Periods") for professional services rendered by the Registrant's principal accountant (the "Auditor") for the audit of the Registrant's annual financial statements, or services that are normally provided by the Auditor in connection with the statutory and regulatory filings or engagements for the Reporting Periods, were \$36,008 in 2006 and \$36,008 in 2007.

(b) Audit-Related Fees. The aggregate fees billed in the Reporting Periods for assurance and related services by the Auditor that are reasonably related to the performance of the audit of the Registrant's financial statements and are not reported under paragraph (a) of this Item 4 were \$21,922 in 2006 and \$42,410 in 2007. These services consisted of (i) security counts required by Rule 17f-2 under the Investment Company Act of 1940, as amended and (ii) agreed upon procedures in evaluating compliance by the fund with provisions of the Fund's Articles Supplementary, creating the series of auction rate preferred stock.

The aggregate fees billed in the Reporting Periods for non-audit assurance and related services by the Auditor to the Registrant's investment adviser (not including any sub-investment adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by or under common control with the investment adviser that provides ongoing services to the Registrant ("Service Affiliates"), that were reasonably related to the performance of the annual audit of the Service Affiliate, which required pre-approval by the Audit Committee were \$0 in 2006 and \$0 in 2007.

Note: For the second paragraph in each of (b) through (d) of this Item 4, certain of such services were not pre-approved prior to May 6, 2003, when such services were required to be pre-approved. On and after May 6, 2003, 100% of all services provided by the Auditor were pre-approved as required. For comparative purposes, the fees shown assume that all such services were pre-approved, including services that were not pre-approved prior to the compliance date of the pre-approval requirement.

(c) Tax Fees. The aggregate fees billed in the Reporting Periods for professional services rendered by the Auditor for tax compliance, tax advice and tax planning ("Tax Services") were \$3,235 in 2006 and \$ 2,313 in 2007. These services consisted of (i) review or preparation of U.S. federal, state, local and excise tax returns;

(ii) U.S. federal, state and local tax planning, advice and assistance regarding statutory, regulatory or administrative developments and (iii) tax advice regarding tax qualification matters and/or treatment of various financial instruments held or proposed to be acquired or held.

The aggregate fees billed in the Reporting Periods for Tax Services by the Auditor to Service Affiliates which required pre-approval by the Audit Committee were \$0 in 2006 and \$0 in 2007.

(d) All Other Fees. The aggregate fees billed in the Reporting Periods for products and services provided by the Auditor, other than the services reported in paragraphs (a) through (c) of this Item, were \$0 in 2006 and \$0 in 2007. These services consisted of a review of the Registrant's anti-money laundering program.

The aggregate fees billed in the Reporting Periods for Non-Audit Services by the Auditor to Service Affiliates, other than the services reported in paragraphs (b) through (c) of this Item, which required pre-approval by the Audit Committee were \$0 in 2006 and \$0 in 2007.

Audit Committee Pre-Approval Policies and Procedures. The Registrant's Audit Committee has established policies and procedures (the "Policy") for pre-approval (within specified fee limits) of the Auditor's engagements for non-audit services to the Registrant and Service Affiliates without specific case-by-case consideration. Pre-approval considerations include whether the proposed services are compatible with maintaining the Auditor's independence. Pre-approvals pursuant to the Policy are considered annually.

Non-Audit Fees. The aggregate non-audit fees billed by the Auditor for services rendered to the Registrant, and rendered to Service Affiliates, for the Reporting Periods were \$443,981 in 2006 and \$1,667,704 in 2007.

Auditor Independence. The Registrant's Audit Committee has considered whether the provision of non-audit services that were rendered to Service Affiliates which were not pre-approved (not requiring pre-approval) is compatible with maintaining the Auditor's independence.

Item 5. Audit Committee of Listed Registrants.

The Registrant is a listed issuer as defined in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act and the following persons constitute the Audit Committee and full Board of Trustees of the Registrant:

Joseph S. DiMartino
Clifford L. Alexander
David W. Burke
Whitney Gerard
George L. Perry

The Fund has determined that each member of the Audit Committee of the Registrant is not an "interested person" of the Registrant as defined in section 2(a)(19) of the Investment Company Act of 1940, as amended, and for purposes of Rule 10A-3(b)(1)(iii) under the Exchange Act, is considered independent.

Item 6. Schedule of Investments.

Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Not applicable. [CLOSED-END FUNDS ONLY]

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

(a) (1) The following information is as of November 29, 2007, the date of the filing of this report:

Joseph Darcy has managed the Registrant since August 1999. Since July 2007 he has been co-primary portfolio manager of the Registrant and has been employed by The Dreyfus Corporation (["Dreyfus"]) since May, 1994.

W. Michael Petty is a co-primary portfolio manager of the Registrant since July 2007 and has been employed by Dreyfus since June 1997.

(a) (2) The following information is as of the Registrant's most recently completed fiscal year, except where otherwise noted:

Portfolio Managers. The Manager manages the Fund's portfolio of investments in accordance with the stated policies of the Fund, subject to the approval of the Fund's Board members. The Manager is responsible for investment decisions and provides the Fund with portfolio managers who are authorized by the Fund's Board to execute purchases and sales of securities. The Fund's portfolio managers are Joseph P. Darcy, A. Paul Disdier, Douglas J. Gaylor, Joseph Irace, Colleen Meehan, W. Michael Petty, James Welch, Bill Vasiliou and Monica S. Wieboldt. The Manager also maintains a research department with a professional staff of portfolio managers and securities analysts who provide research services for the Fund and for other funds advised by the Manager.

Portfolio Manager Compensation. Portfolio manager compensation is comprised primarily of a market-based salary and an incentive compensation plan. The Fund's portfolio managers are compensated by Dreyfus or its affiliates and not by the Fund. The incentive compensation plan is comprised of three components: portfolio performance (approximately 60%), individual qualitative performance (approximately 20%) and Dreyfus financial performance as measured by Dreyfus' pre-tax net income (approximately 20%). Up to 10% of the incentive plan compensation may be paid in Mellon restricted stock.

Portfolio performance is measured by a combination of yield (35%) and total return (65%) relative to the appropriate Lipper peer group. 1-year performance in each category is weighted at 40% and 3-year performance at 60%. The portfolio manager's performance is measured on either a straight average (each account weighted equally) or a combination of straight average and asset-weighted average. Generally, if the asset-weighted average is higher, then that is used to measure performance. If the straight average is higher, then typically an average of the two is used to measure performance.

Individual qualitative performance is based on Dreyfus' Chief Investment Officer's evaluation of the portfolio manager's performance based on any combination of the following: marketing contributions; new product development; performance on special assignments; people development; methodology enhancements; fund growth/gain in market; and support to colleagues. The Chief Investment Officer may consider additional factors at his discretion.

Portfolio managers are also eligible for Dreyfus' Long Term Incentive Plan. Under that plan, cash and/or Mellon restricted stock is awarded at the discretion of the Chief Investment Officer based on individual performance and contributions to the Investment Management Department and the Mellon organization.

Additional Information About the Portfolio Managers. The following table lists the number and types of other accounts advised by the Fund's primary portfolio manager and assets under management in those accounts as of the end of the Fund's fiscal year:

Registered

Investment						
Portfolio Manager	Company	Assets	Pooled	Assets	Other	Assets
Accounts	Managed	Accounts	Managed	Accounts	Managed	Managed
Joseph Darcy	5	\$4.8 billion	0	0	0	0
W. Michael Petty	4	\$1.8 billion	0	0	0	0

None of the funds or accounts are subject to a performance-based advisory fee.

The dollar range of Fund shares beneficially owned by the primary portfolio manager are as follows as of the end of the Fund's fiscal year:

Portfolio Manager	Fund Name	Dollar Range of Fund Shares Beneficially Owned
Joseph Darcy	Dreyfus Municipal Income, Inc.	None
W. Michael Petty	Dreyfus Municipal Income, Inc.	None

Portfolio managers at Dreyfus may manage multiple accounts for a diverse client base, including mutual funds, separate accounts (assets managed on behalf of institutions such as pension funds, insurance companies and foundations), bank common trust accounts and wrap fee programs ("Other Accounts").

Potential conflicts of interest may arise because of Dreyfus' management of the Fund and Other Accounts. For example, conflicts of interest may arise with both the aggregation and allocation of securities transactions and allocation of limited investment opportunities, as Dreyfus may be perceived as causing accounts it manages to participate in an offering to increase Dreyfus' overall allocation of securities in that offering, or to increase Dreyfus' ability to participate in future offerings by the same underwriter or issuer. Allocations of bunched trades, particularly trade orders that were only partially filled due to limited availability, and allocation of investment opportunities generally, could raise a potential conflict of interest, as Dreyfus may have an incentive to allocate securities that are expected to increase in value to preferred accounts. Initial public offerings, in particular, are frequently of very limited availability. Additionally, portfolio managers may be perceived to have a conflict of interest if there are a large number of Other Accounts, in addition to the Fund, that they are managing on behalf of Dreyfus. Dreyfus periodically reviews each portfolio manager's overall responsibilities to ensure that he or she is able to allocate the necessary time and resources to effectively manage the Fund. In addition, Dreyfus could be viewed as having a conflict of interest to the extent that Dreyfus or its affiliates and/or portfolio managers have a materially larger investment in Other Accounts than their investment in the Fund.

Other Accounts may have investment objectives, strategies and risks that differ from those of the Fund. For these or other reasons, the portfolio manager may purchase different securities for the Fund and the Other Accounts, and the performance of securities purchased for the Fund may vary from the performance of securities purchased for Other Accounts. The portfolio manager may place transactions on behalf of Other Accounts that are directly or indirectly contrary to investment decisions made for the Fund, which could have the potential to adversely impact the Fund, depending on market conditions.

A potential conflict of interest may be perceived to arise if transactions in one account closely follow related transactions in another account, such as when a purchase increases the value of securities previously

purchased by the other account, or when a sale in one account lowers the sale price received in a sale by a second account.

Conflicts of interest similar to those described above arise when portfolio managers are employed by a sub-investment adviser or are dual employees of the Manager and an affiliated entity and such portfolio managers also manage other accounts.

Dreyfus' goal is to provide high quality investment services to all of its clients, while meeting Dreyfus' fiduciary obligation to treat all clients fairly. Dreyfus has adopted and implemented policies and procedures, including brokerage and trade allocation policies and procedures, that it believes address the conflicts associated with managing multiple accounts for multiple clients. In addition, Dreyfus monitors a variety of areas, including compliance with Fund guidelines, the allocation of IPOs, and compliance with the firm's Code of Ethics. Furthermore, senior investment and business personnel at Dreyfus periodically review the performance of Dreyfus' portfolio managers.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers.

Not applicable. [CLOSED-END FUNDS ONLY]

Item 10. Submission of Matters to a Vote of Security Holders.

The Registrant has a Nominating Committee (the "Committee"), which is responsible for selecting and nominating persons for election or appointment by the Registrant's Board as Board members. The Committee has adopted a Nominating Committee Charter (the "Charter"). Pursuant to the Charter, the Committee will consider recommendations for nominees from shareholders submitted to the Secretary of the Registrant, c/o The Dreyfus Corporation Legal Department, 200 Park Avenue, 8th Floor East, New York, New York 10166. A nomination submission must include information regarding the recommended nominee as specified in the Charter. This information includes all information relating to a recommended nominee that is required to be disclosed in solicitations or proxy statements for the election of Board members, as well as information sufficient to evaluate the factors to be considered by the Committee, including character and integrity, business and professional experience, and whether the person has the ability to apply sound and independent business judgment and would act in the interests of the Registrant and its shareholders.

Nomination submissions are required to be accompanied by a written consent of the individual to stand for election if nominated by the Board and to serve if elected by the shareholders, and such additional information must be provided regarding the recommended nominee as reasonably requested by the Committee.

Item 11. Controls and Procedures.

(a) The Registrant's principal executive and principal financial officers have concluded, based on their evaluation of the Registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report, that the Registrant's disclosure controls and procedures are reasonably designed to ensure that information required to be disclosed by the Registrant on Form N-CSR is recorded, processed, summarized and reported within the required time periods and that information required to be disclosed by the Registrant in the reports that it files or submits on Form N-CSR is accumulated and communicated to the Registrant's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

(b) There were no changes to the Registrant's internal control over financial reporting that occurred during the second fiscal quarter of the period covered by this report that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a)(1) Code of ethics referred to in Item 2.
- (a)(2) Certifications of principal executive and principal financial officers as required by Rule 30a-2(a) under the Investment Company Act of 1940.
- (a)(3) Not applicable.
- (b) Certification of principal executive and principal financial officers as required by Rule 30a-2(b) under the Investment Company Act of 1940.

SIGNATURES

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Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

DREYFUS MUNICIPAL INCOME, INC.

By: /s/ J. David Officer
J. David Officer
President

Date: November 26, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ J. David Officer
J. David Officer
President

Date: November 26, 2007

By: /s/ James Windels
James Windels
Treasurer

Date: November 26, 2007

EXHIBIT INDEX

(a)(1) Code of ethics referred to in Item 2.

(a)(2) Certifications of principal executive and principal financial officers as required by Rule 30a-2(a) under the Investment Company Act of 1940. (EX-99.CERT)

(b) Certification of principal executive and principal financial officers as required by Rule 30a-2(b) under the Investment Company Act of 1940. (EX-99.906CERT)